

Message Text

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12

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AMEMBASSY LONDON

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TAGS: EAIR, WB, UK, US, FR

SUBJECT: IGS PROMOTIONAL FARES

REF: A. BONN 9261 B. STATE 126417

1. SUMMARY: PAA HAS APPLIED TO INTRODUCE PROMOTIONAL GROUP FARES AVERAGING A 33 PERCENT REDUCTION FROM EXISTING REGULAR TARIFFS. BA HAS SUBMITTED AN IDENTICAL APPLICATION BUT, ACCORDING TO UK CAA, WILL PROBABLY NOT AGREE TO INTRODUCE THE PLAN UNLESS A FARE INCREASE IS GRANTED AT THE SAME TIME. UK CAA WILL HAVE ADDITIONAL INFORMATION ON BA'S POSITION AFTER CONSULTATIONS IN LONDON SCHEDULED FOR THE END OF JULY. END SUMMARY.

2. PAA HAS APPLIED TO INTRODUCE PROMOTIONAL GROUP INCLUSIVE FARES ON THE BERLIN SERVICE. THE FARE PLAN WOULD INCORPORATE ONE-NIGHT, TWO-NIGHT AND THREE-NIGHT OPTIONS, AND WOULD REQUIRE A MINIMUM GROUP OF TEN PASSENGERS. TICKETS WOULD HAVE TO BE SOLD AT LEAST ONE WEEK IN ADVANCE, AND A 25 PERCENT FEE WOULD BE CHARGED IF PASSENGERS CANCELLED WITHIN ONE WEEK OF THE PROPOSED TRAVEL DATE. INTRODUCTION OF THE FARES

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WOULD BE CONDITIONED UPON RECEIPT OF THE FULL SUBSIDY

FOR EACH ROUTE. OUR CALCULATIONS INDICATE THAT THE PROMOTIONAL FARE PROPOSAL WOULD INVOLVE AN AVERAGE 33 PERCENT REDUCTION FROM EXISTING REGULAR FARES.

3. PAA'S JUSTIFICATION EMPHASIZES THAT THE PLAN WOULD GENERATE NEW PASSENGERS AND REVENUES WELL IN EXCESS OF ANY POTENTIAL REVENUE DIVERSION. PAN AMERICAN FURTHER SUGGESTS THAT THE PLAN WOULD PROBABLY SUPPLANT EXISTING INCLUSIVE TOUR TRAFFIC, GROUP INCENTIVE TRAFFIC, AND YOUTH STUDENT TRAFFIC, BUT WOULD NOT NEGATIVELY AFFECT FULL REVENUE BUSINESS.

4. EMB CAA HAS DISCUSSED THE PROPOSAL WITH BRITISH CAA GROVES, WHO CONFIRMED THAT BA HAD SUBMITTED TO LONDON AND TO THE BRITISH EMBASSY AN IDENTICAL APPLICATION. HE POINTED OUT, HOWEVER, THAT BA APPARENTLY INTENDED TO CONDITION ITS WILLINGNESS TO PROCEED WITH THE PROMOTIONAL PLAN ON THE SIMULTANEOUS INTRODUCTION OF A FARE INCREASE (PARA 7, REFTEL A). GROVES PRESUMED THAT BA INTENDED TO APPLY THE PROMOTIONAL FARES ENUMERATED IN THE APPLICATION, AND NOT RECALCULATED FARES BASED ON THE HIGHER REGULAR TARIFFS IT HOPED TO INTRODUCE. IN THE LIGHT OF WHAT HE UNDERSTOOD TO BE BA'S POSITION, GROVES COULD MAKE NO FORMAL COMMENT ON THE PRESENT APPLICATION UNTIL HE HAD HAD AN OPPORTUNITY TO CONSULT IN LONDON ON JULY 30 WITH BA AND UK CIVIL AIR AUTHORITY OFFICIALS.

5. IN THE ABSENCE OF INSTRUCTIONS GROVES REMARKED ON A PERSONAL BASIS THAT HE COULD SEE SOME TACTICAL BENEFIT TO APPROACHING THE GERMANS SIMULTANEOUSLY WITH A FARE INCREASE AND A PROMOTIONAL PACKAGE. HE ADDED THAT HE WAS BEING SUBJECTED TO MOUNTING PRESSURE BY BA FOR SOME FORWARD MOVEMENT ON THE FARE INCREASE AND OPINED THAT WE WOULD HAVE TO REACH A DECISION BEFORE MUCH LONGER. IN THIS CONNECTION, GROVES SAID THAT BA'S LATEST DATA (TAKING INTO ACCOUNT THE ROUTE DIVISION) SHOWED AN OPERATING LOSS OF ABOUT 7 PERCENT FOR THIS CALENDER YEAR.

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6. COMMENT: GIVEN PRESENT UNCERTAINTIES REGARDING FARE INCREASE ISSUE FROM PAA'S STANDPOINT, WE WOULD PREFER TO PROCEED WITH THE PROMOTIONAL SCHEME WHICH WE PRESUME IN ISOLATION WOULD POSE NO PROBLEMS FOR THE GERMANS. EARLY IMPLEMENTATION WOULD OF COURSE GIVE THE CARRIERS AN OPPORTUNITY TO TAP THE SUMMER VACATION MARKET AND MAXIMIZE THE AIRLINES' CHANCES OF INCREASING TRAFFIC VOLUME. WE EXPRESSED THIS VIEW

TO GROVES WHO, BECAUSE OF THE SITUATION OUTLINED IN
PARA 4 ABOVE, CHOSE TO POSTPONE ANY FURTHER DISCUSSION
UNTIL HE HAD INSTRUCTIONS.
HILLENBRAND

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